

**STATE BOARD OF ACCOUNTS
302 West Washington Street
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INDIANAPOLIS, INDIANA 46204-2769**

AUDIT REPORT
OF
PORTER COUNTY AIRPORT AUTHORITY
PORTER COUNTY, INDIANA
January 1, 2005 to December 31, 2006



FILED
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OFFICIALS

Office

Official

Term

Airport Manager/Treasurer

Kyle Kuebler

01-01-05 to 06-30-07

President of the Airport
Authority Board

Paul Chael

01-01-05 to 06-30-07



STATE OF INDIANA

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE PORTER COUNTY AIRPORT AUTHORITY, PORTER COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Porter County Airport Authority (Authority), as of and for the years ended December 31, 2005 and 2006. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as described in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As further discussed in Note II. B, the Authority does not maintain a comprehensive detailed record of capital assets.

In our opinion, except for the effects, if any, of the matters referred to above, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority as of December 31, 2005 and 2006, and the respective changes in financial position and cash flows, where applicable, thereof and for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

STATE BOARD OF ACCOUNTS

January 23, 2007

Management's Discussion and Analysis

Our discussion and analysis of the Porter County Airport Authority (the Airport) financial performance provides an overview of the Airport's financial activities for the two (2) fiscal year period ending December 31, 2006. Please read it in conjunction with the Airport's financial statements and accompanying notes to the financial statements.

Using This Annual Report

This report consists of two parts - *management's discussion and analysis*, and the *basic financial statements*.

In the "*management discussion and analysis*" section of this report, the management of the Airport discuss various components of the report and provide an analysis of the current financial statement information.

The "*basic financial statement*" section of this report includes a series of financial statements which provide information about the activities of the Airport as a whole. The Statement of Net Assets reveals the assets and liabilities of the Airport on December 31, 2006, while the Statement of Revenues, Expenses and Changes in Fund Net Assets summarizes the changes in the assets and liabilities for the audit period then ended. The Statement of Cash Flows summarizes the change in cash and cash equivalents as a result of the financial activity during the audit period. The Notes to the Financial Statements disclose additional information addressed within the body of the financial statements.

Financial Highlights

The Airport's net assets increased by \$330,136 (or 3.00%), as a result of 2006 operations. Operating Revenues increased by \$131,725 (or 6.04%), driven by strong aviation fuel sales, additional revenue generated by new leases, and the renegotiation of certain leases. The Airport's operating expenses increased by \$193,351 (or 8.60%) due largely to the increased inventory required for sales, and the unprecedented, increased cost of aviation fuel.

The Airport's capital assets increased by \$38,736 (or 0.33%) when comparing the years of the audit period. Significant projects included the reconstruction and restoration of a major portion of the secondary taxiway system, the installation of a taxiway lighting system for the primary taxiway infrastructure, Terminal Building Improvements, and the acquisition of necessary mobile equipment. The above figure is a net value considering depreciation.

The Airport's outstanding debt decreased by \$255,421 (or 16.98%), with the scheduled payments associated with the Airport Revenue Bond, and notes corresponding to the Airport's Tee Hangars and Fuel Farm.

Summarized Financial Statement Information

The following information documents in summary form the financial information related to the activities of the Airport for the last two (2) years.

	Net Assets	
	<u>2006</u>	<u>2005</u>
<u>Assets</u>		
Current Assets	\$ 324,139	\$ 466,101
<u>Noncurrent Assets:</u>		
Restricted Assets	\$ 686,551	\$ 515,221
Capital Assets	\$ 11,624,823	\$ 11,586,087
Other Assets: Deferred Charges	\$ 7,774	\$ 9,717
Total Assets	\$ 12,643,287	\$ 12,577,126
<u>Liabilities</u>		
Current Liabilities	\$ 341,537	\$ 335,206
<u>Noncurrent Liabilities:</u>		
Long Term Liabilities	\$ 970,498	\$ 1,240,804
Total Liabilities	\$ 1,312,035	\$ 1,576,010
<u>Net Assets</u>		
Invested In Capital Assets, Net Of Related Debt	\$ 10,382,429	\$ 10,089,862
Restricted For Capital Improvement	\$ 651,551	\$ 480,221
Restricted For Fuel Storage Tank Remediation	\$ 35,000	\$ 35,000
Unrestricted	\$ 262,272	\$ 396,033
Total Net Assets	\$ 11,331,252	\$ 11,001,116

Changes In Net Assets

	<u>2006</u>	<u>2005</u>
Operating Revenues:		
Fuel sales	\$ 1,517,582	\$ 1,388,397
Hangar fees and rentals	\$ 304,398	\$ 319,462
Aviation Tax Distribution	\$ 449,203	\$ 454,674
Other	\$ 40,737	\$ 17,662
Total operating revenues	<u>\$ 2,311,920</u>	<u>\$ 2,180,195</u>
Operating expenses:		
Salaries and wages	\$ 486,860	\$ 468,107
Office supplies	\$ 2,450	\$ 3,029
Airport supplies	\$ 19,752	\$ 14,905
Insurance	\$ 39,402	\$ 45,196
Utilities	\$ 72,684	\$ 62,695
Fuel	\$ 1,189,031	\$ 1,061,296
Repair and maintenance	\$ 90,778	\$ 59,165
Contractual services	\$ 60,245	\$ 72,701
Runways and taxiways	\$ 24,057	\$ 17,779
Depreciation and amortization	\$ 439,139	\$ 437,690
Bad Debt Expense	\$ 11,681	\$ -
Miscellaneous expenses	\$ 6,620	\$ 6,785
Total operating expenses	<u>\$ 2,442,699</u>	<u>\$ 2,249,348</u>
Operating loss	<u>\$ (130,779)</u>	<u>\$ (69,153)</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	\$ 15,835	\$ 13,300
Cumulative Building Tax Distributions	\$ 179,334	\$ 173,189
Interest Expense	\$ (90,324)	\$ (104,548)
Amortization Expense	\$ (1,943)	\$ (1,943)
Total nonoperating revenues (expenses)	<u>\$ 102,902</u>	<u>\$ 79,998</u>
Loss before contributions	<u>\$ (27,877)</u>	<u>\$ 10,845</u>
Capital contributions	<u>\$ 358,013</u>	<u>\$ 108,034</u>
Change in net assets	<u>\$ 330,136</u>	<u>\$ 118,879</u>
Total net assets - beginning	<u>\$ 11,001,116</u>	<u>\$ 10,882,237</u>
Total net assets - ending	<u>\$ 11,331,252</u>	<u>\$ 11,001,116</u>

Capital Assets and Debt Administration

Capital Assets

At the end of 2006 the Airport had approximately \$11,624,823 invested in capital assets. This amount represents a net increase of approximately \$38,736 (or 0.33%) over last year. More detailed information about the Airport's capital assets is presented in Note II (B) to the financial statements. The table below documents the type of assets that makeup of the Capital Assets held by the Airport as of December 31, 2006.

Capital Assets At Year End Net Of Depreciation

	<u>2006</u>	<u>2005</u>
Construction In Progress	\$ 1,340,616	\$ 897,857
Other Capital Assets	<u>\$ 15,178,139</u>	<u>\$ 15,143,023</u>
Subtotal	\$ 16,518,755	\$ 16,040,880
Less Accumulated Depreciation	<u>\$ 4,893,932</u>	<u>\$ 4,454,793</u>
Total Capital Assets (Net)	\$ 11,624,823	\$ 11,586,087

Debt

At year-end, the Airport had approximately \$1,248,754 in revenue bonds and loans outstanding, versus \$1,504,175 at the end of the previous year, which represents a decrease of 16.98%. More detailed information about the Airport's long term liabilities is presented in Note II (D) to the financial statements. The table below documents the debt held and its use:

Outstanding Debt At Year End

	<u>2006</u>	<u>2005</u>
Revenue Bond Payables	\$ 995,000	\$ 1,205,000
Notes Payable	<u>\$ 253,754</u>	<u>\$ 299,175</u>
Total Debt	\$ 1,248,754	\$ 1,504,175

Economic Factors

The economic factors throughout the audit period offered continued improvement to financial position of the Airport, due in part to both local and national issues. Since a large segment of the Airport's operation is in support of corporate flight activity, the steady economy increased the corporate use of the facility, thereby increasing associated fuel sales to those users. Total fuel gallons delivered increased by 24,247 in 2005, and 18,065 for 2006, over the Fiscal Year 2004 total of 424,988 gallons.

While factors involving reassessment and the bankruptcies of Bethlehem and National Steel still modify the normal payment cycle regarding taxes collected for airport operation and capital development, this also affecting the associated levies, increased operational revenues and reducing interest expense has aided to offset the continuing temporary change in the tax payment cycle.

Concluding Statement

This Management Discussion and Analysis is provided by the Airport and not by a professional financial analyst and/or financial consultant. This Management Discussion and Analysis is not provided for reliance as to the financial health of the Porter County Municipal Airport Authority, but only provided to assist in the understanding of the accounts and financial statements generated by the receipts, expenditures, investments and operations of the Airport. There is no warrantee or guarantee by the Airport Authority as to the accuracy of the statements and conclusions contained in the Management Discussion and Analysis. If you have questions about this report or need additional financial information, contact the Airport Manager at Porter County Municipal Airport, 4207 Murvihill Road, Valparaiso, Indiana 46383.

PORTER COUNTY AIRPORT AUTHORITY
STATEMENT OF NET ASSETS
December 31, 2005 And 2006

<u>Assets</u>	<u>2005</u>	<u>2006</u>
Current assets:		
Aviation cash and cash equivalents	\$ 90,406	\$ 27,842
Rotary cash and cash equivalents	222,277	153,700
Accounts receivable (net of allowance)	92,806	72,224
Inventories - merchandise	60,612	70,373
Total current assets	466,101	324,139
Noncurrent assets:		
Restricted cash and cash equivalents:		
Cumulative building cash and cash equivalents	167,033	171,209
Capital cash and cash equivalents	307,480	352,518
Airport improvement grants cash and cash equivalents	5,708	127,824
UST ELF cash and cash equivalents	35,000	35,000
Total restricted assets	515,221	686,551
Deferred charges	9,717	7,774
Capital assets:		
Land and construction in progress	2,527,269	2,970,028
Other capital assets (net of accumulated depreciation)	9,058,818	8,654,795
Total capital assets	11,586,087	11,624,823
Total noncurrent assets	12,111,025	12,319,148
Total assets	12,577,126	12,643,287
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	10,488	6,556
Accrued payroll and withholdings payable	11,602	11,583
Security and parcel deposits payable	3,520	3,520
Deferred revenue	47,469	42,377
Notes payable	45,421	46,896
Current liabilities payable from restricted assets:		
Revenue bonds payable	210,000	225,000
Accrued interest payable	6,706	5,605
Total current liabilities	335,206	341,537
Noncurrent liabilities:		
Notes payable	253,754	206,858
Revenue bonds payable (net of unamortized discounts)	987,050	763,640
Total noncurrent liabilities	1,240,804	970,498
Total liabilities	1,576,010	1,312,035
<u>Net Assets</u>		
Invested in capital assets, net of related debt	10,089,862	10,382,429
Restricted for capital improvement	480,221	651,551
Restricted for fuel storage tank site remediation	35,000	35,000
Unrestricted	396,033	262,272
Total net assets	\$ 11,001,116	\$ 11,331,252

The notes to the financial statements are an integral part of this statement.

PORTER COUNTY AIRPORT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Years Ended December 31, 2005 And 2006

	<u>2005</u>	<u>2006</u>
Operating revenues:		
Fuel sales	\$ 1,388,397	\$ 1,517,582
Hangar fees and rentals	319,462	304,398
Aviation tax distributions	454,674	449,203
Other	<u>17,662</u>	<u>40,737</u>
Total operating revenues	<u>2,180,195</u>	<u>2,311,920</u>
Operating expenses:		
Salaries and wages	468,107	486,860
Office supplies	3,029	2,450
Airport supplies	14,905	19,752
Insurance	45,196	39,402
Utilities	62,695	72,684
Fuel	1,061,296	1,189,031
Repair and maintainance	59,165	90,778
Contractual services	72,701	60,245
Runways and taxiways	17,779	24,057
Depreciation	437,690	439,139
Bad debt expense	-	11,681
Miscellaneous expenses	<u>6,785</u>	<u>6,620</u>
Total operating expenses	<u>2,249,348</u>	<u>2,442,699</u>
Operating loss	<u>(69,153)</u>	<u>(130,779)</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	13,300	15,835
Cumulative building tax distributions	173,189	179,334
Interest expense	(104,548)	(90,324)
Amortization expense	<u>(1,943)</u>	<u>(1,943)</u>
Total nonoperating revenues	<u>79,998</u>	<u>102,902</u>
Income (loss) before contributions	10,845	(27,877)
Capital contributions	<u>108,034</u>	<u>358,013</u>
Change in net assets	118,879	330,136
Total net assets - beginning	<u>10,882,237</u>	<u>11,001,116</u>
Total net assets - ending	<u>\$ 11,001,116</u>	<u>\$ 11,331,252</u>

The notes to the financial statements are an integral part of this statement.

PORTER COUNTY AIRPORT AUTHORITY
STATEMENT OF CASH FLOWS
As Of And For The Years Ended December 31, 2005 And 2006

	<u>2005</u>	<u>2006</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 2,216,713	\$ 2,315,729
Payments to suppliers and contractors	(1,351,381)	(1,522,297)
Payments to employees	<u>(464,681)</u>	<u>(486,879)</u>
Net cash provided by operating activities	<u>400,651</u>	<u>306,553</u>
Cash flows from capital and related financing activities:		
Local tax distributions	173,189	179,334
Capital contributions	204,300	358,013
Acquisition and construction of capital assets	(497,095)	(474,290)
Principal paid on capital debt	(243,993)	(255,421)
Interest paid on capital debt	<u>(104,009)</u>	<u>(89,835)</u>
Net cash used by capital and related financing activities	<u>(467,608)</u>	<u>(282,199)</u>
Cash flows from investing activities:		
Interest received	<u>13,300</u>	<u>15,835</u>
Net increase (decrease) in cash and cash equivalents	(53,657)	40,189
Cash and cash equivalents, January 1	<u>881,561</u>	<u>827,904</u>
Cash and cash equivalents, December 31	<u><u>\$ 827,904</u></u>	<u><u>\$ 868,093</u></u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	<u>\$ (69,153)</u>	<u>\$ (130,779)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense	437,690	439,139
Bad debt expense	-	11,681
(Increase) decrease in assets:		
Accounts receivable	(3,221)	8,901
Inventories	(16,462)	(9,761)
Increase (decrease) in liabilities:		
Accounts payable	8,992	(7,517)
Accrued payroll and withholdings payable	3,426	(19)
Security and parcel deposits	(360)	-
Deferred revenue	<u>39,739</u>	<u>(5,092)</u>
Total adjustments	<u>469,804</u>	<u>437,332</u>
Net cash provided by operating activities	<u><u>\$ 400,651</u></u>	<u><u>\$ 306,553</u></u>
Noncash investing, capital and financing activities:		
Deletion of obsolete capital assets	\$ 8,510	\$ -
Acquisition of capital assets through accounts payable	-	3,585

The notes to the financial statements are an integral part of this statement.

PORTER COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Authority (primary government) was established under the laws of the State of Indiana. The Authority operates under an appointed Airport Authority Board form of government and provides airport administration services.

The accompanying financial statements present the activities of the Authority. There are no significant component units which require inclusion.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Other Changes in Fund Net Assets; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the business-type activity are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statute (IC 5-13-9) authorizes the Authority to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Investment income, including changes in the fair value of investments, is reported as revenue in the operating statement.

PORTER COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Inventories - Merchandise

A perpetual inventory of merchandise and fuel for resale is maintained. At year end, physical counts of inventories are made and valued at cost using the first-in, first-out method. Appropriate entries are then made to adjust inventory and expense accounts.

3. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the Authority in June and in December. State statutes (IC 6-1.1-17-16) require the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments that become delinquent if not paid by May 10 and November 10, respectively. The property taxes collected for the aviation operations are classified as operating revenue since the related expenses are for operations. The property taxes collected for debt repayment are classified as nonoperating.

4. Restricted Assets

Certain proceeds of the revenue bonds, as well as certain resources set aside for their repayment, and grant reimbursements are classified as restricted assets on the statement of net assets balance sheet because their use is limited by grant and statutory requirements.

5. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Depreciation methods and estimated useful lives of capital assets are as follows:

	<u>Depreciation Method</u>	<u>Composite Rate</u>
Improvements other than buildings	Straight-line	3.5%
Buildings	Straight-line	2.0%
Machinery and equipment	Straight-line	7.0%

The Authority has not adopted a capitalization threshold or maintained a comprehensive detailed record of capital assets to support the reported balances for capital assets.

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

PORTER COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

6. Compensated Absences

- a. Sick Leave – Authority employees earn sick leave at the rate of 9 days per year. Unused sick leave may be accumulated to a maximum of 30 days. Accumulated sick leave is not paid to employees upon separation of employment.
- b. Vacation Leave – Authority employees earn vacation leave at rates from 10 days to 25 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.
- c. Personal Leave – Authority employees earn personal leave at the rate of 3 days per year. Personal leave does not accumulate from year to year.

No liability is reported for sick, vacation or personal leave.

7. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

II. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds; and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13. As of December 31, 2005 and 2006, the Authority had no investments.

B. Capital Assets

The Authority does not maintain a detailed comprehensive record of capital assets. Reported amounts are based upon previously reported balances, with the additions provided by the Authority for the period.

Capital asset activity for the years ended December 31, 2005 and 2006, was as follows:

PORTER COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>2005</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 1,629,412	\$ -	\$ -	\$ 1,629,412
Construction in progress	<u>763,745</u>	<u>134,112</u>	<u>-</u>	<u>897,857</u>
Total capital assets, not being depreciated	<u>2,393,157</u>	<u>134,112</u>	<u>-</u>	<u>2,527,269</u>
Capital assets, being depreciated:				
Improvements other than buildings	9,614,641	148,509	1,010	9,762,140
Buildings	3,331,759	-	-	3,331,759
Machinery and equipment	<u>327,712</u>	<u>99,500</u>	<u>7,500</u>	<u>419,712</u>
Totals	<u>13,274,112</u>	<u>248,009</u>	<u>8,510</u>	<u>13,513,611</u>
Less accumulated depreciation for:				
Improvements other than buildings	3,030,307	341,675	1,010	3,370,972
Buildings	667,594	66,635	-	734,229
Machinery and equipment	<u>327,712</u>	<u>29,380</u>	<u>7,500</u>	<u>349,592</u>
Totals	<u>4,025,613</u>	<u>437,690</u>	<u>8,510</u>	<u>4,454,793</u>
Total capital assets, being depreciated, net	<u>9,248,499</u>	<u>(189,681)</u>	<u>-</u>	<u>9,058,818</u>
Total capital assets, net	<u>\$ 11,641,656</u>	<u>\$ (55,569)</u>	<u>\$ -</u>	<u>\$ 11,586,087</u>
<u>2006</u>				
Capital assets, not being depreciated:				
Land	\$ 1,629,412	\$ -	\$ -	\$ 1,629,412
Construction in progress	<u>897,857</u>	<u>442,759</u>	<u>-</u>	<u>1,340,616</u>
Total capital assets, not being depreciated	<u>2,527,269</u>	<u>442,759</u>	<u>-</u>	<u>2,970,028</u>
Capital assets, being depreciated:				
Improvements other than buildings	9,762,140	1,255	-	9,763,395
Buildings	3,331,759	19,321	-	3,351,080
Machinery and equipment	<u>419,712</u>	<u>14,540</u>	<u>-</u>	<u>434,252</u>
Totals	<u>13,513,611</u>	<u>35,116</u>	<u>-</u>	<u>13,548,727</u>

PORTER COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>2006</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated (continued):				
Less accumulated depreciation for:				
Improvements other than buildings	3,370,972	341,719	-	3,712,691
Buildings	734,229	67,022	-	801,251
Machinery and equipment	349,592	30,398	-	379,990
Totals	<u>4,454,793</u>	<u>439,139</u>	<u>-</u>	<u>4,893,932</u>
Total capital assets, being depreciated, net	<u>9,058,818</u>	<u>(404,023)</u>	<u>-</u>	<u>8,654,795</u>
Total capital assets, net	<u>\$ 11,586,087</u>	<u>\$ 38,736</u>	<u>\$ -</u>	<u>\$ 11,624,823</u>

C. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Total Project Authorized</u>	<u>Expended to December 31, 2006</u>	<u>Committed</u>
De-icing and terminal aprons extension	\$ 938,957	\$ 900,857	\$ 38,100
Medium intensity taxiway lighting system	502,989	431,999	70,990
Sewer extension project	185,496	7,760	177,736
Totals	<u>\$ 1,627,442</u>	<u>\$ 1,340,616</u>	<u>\$ 286,826</u>

D. Long-Term Liabilities

1. Revenue Bonds

The Authority issues bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Less: Unamortized Discount</u>	<u>Revenue Bonds</u>
1996 Airport Development	5.75% to 6.00%	<u>\$ 995,000</u>	<u>\$ 6,360</u>	<u>\$ 988,640</u>

Revenue bonds debt service requirements to maturity are as follows:

PORTER COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Year Ended December 31	Principal	Interest
2007	\$ 225,000	\$ 59,138
2008	240,000	46,200
2009	255,000	31,800
2010	<u>275,000</u>	<u>16,500</u>
Totals	<u>\$ 995,000</u>	<u>\$ 153,638</u>

2. Notes Payable

The Authority has entered into various notes. Annual debt service requirements to maturity for the notes are as follows:

Year Ended December 31	Principal	Interest
2007	\$ 46,896	\$ 7,437
2008	48,419	5,913
2009	49,991	4,341
2010	51,615	2,718
2011	44,720	1,071
2012-2016	<u>12,113</u>	<u>109</u>
Totals	<u>\$ 253,754</u>	<u>\$ 21,589</u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable	\$ 1,205,000	\$ -	\$ 210,000	\$ 995,000	\$ 225,000
Less discount	<u>(7,950)</u>	<u>-</u>	<u>(1,590)</u>	<u>(6,360)</u>	<u>-</u>
Total revenue bonds payable	1,197,050	-	208,410	988,640	225,000
Notes payable	<u>299,175</u>	<u>-</u>	<u>45,421</u>	<u>253,754</u>	<u>46,896</u>
Total long-term liabilities	<u>\$ 1,496,225</u>	<u>\$ -</u>	<u>\$ 253,831</u>	<u>\$ 1,242,394</u>	<u>\$ 271,896</u>

PORTER COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Restricted Assets

The balances of restricted asset accounts are as follows:

Cumulative building cash and cash equivalents	\$ 171,209
Capital cash and cash equivalents	352,518
Airport improvement grants cash and cash equivalents	127,824
UST ELF cash and cash equivalents	<u>35,000</u>
 Total restricted assets	 <u><u>\$ 686,551</u></u>

III. Other Information

A. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Medical Benefits to Employees, Retirees, and Dependents

The Authority has chosen to participate in the Porter County Employee Benefit Plan Fund. A risk financing fund established by Porter County for County and Airport employees for risks associated with medical benefits to employees, retirees, and dependents (excluding postemployment benefits). The risk financing fund is where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$90,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. A premium is charged to each County fund (and the Airport) that accounts for payroll. The total charge allocated to each of the funds is calculated using trends in actual claims experience. Provisions are also made for unexpected and unusual claims.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred. However, claim liabilities cannot be reasonably estimated.

B. Contingent Liabilities

The contractor for the de-icing and terminal aprons extension project had submitted a claim for \$177,560 for additional compaction costs. The Authority has denied the claim. Currently, the Authority and the contractor are in litigation over the claim.

PORTER COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Pension Plan

Public Employees' Retirement Fund

Plan Description

The Authority contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the Airport authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The Airport participates through Porter County's participation in PERF and does not have a separate actuarial evaluation. The County's annual pension cost related information, as provided by the actuary, can be found in the Porter County Annual Reports for 2005 and 2006.

PORTER COUNTY AIRPORT AUTHORITY
AUDIT RESULTS AND COMMENTS

CAPITAL ASSETS

As stated in the prior Audit Report B25273, the Airport does not maintain sufficient detailed records of capital assets. Upon purchase, the costs of the capital assets are added to Capital Asset accounts for land, land improvement, etc., in the General Ledger. However, records providing historical costs for some of the Airport's capital assets are not available, and records classifying and summarizing the Airport's capital assets are incomplete. Deletions or disposals of capital assets are not recorded.

In addition, the Airport Authority has not established a capital asset policy which sets a dollar amount as a threshold to be used in determining which items will be recorded.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded in the Capital Assets Ledger. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records.

The governing body should establish a capitalization policy that sets a dollar amount as a threshold to be used in determining which items will be recorded. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 16)

PRESCRIBED FORMS

As stated in the prior Audit Report B25273, the Airport does not maintain all of its accounting records on prescribed or approved forms. The detailed receipts and the accounts receivable ledgers are not prescribed forms. In addition, the Airport maintains accrual accounting records on a computerized system; however, the computer generated forms have not been approved by the State Board of Accounts.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

PORTER COUNTY AIRPORT AUTHORITY
EXIT CONFERENCE

The contents of this report were discussed on February 12, 2007, with Kyle Kuebler, Airport Manager/
Treasurer. The official concurred with our audit findings.